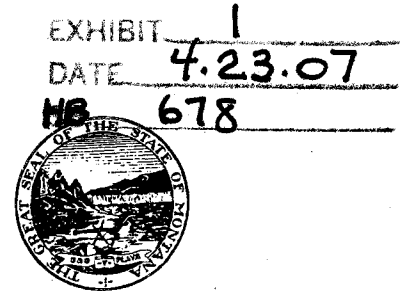


Dan Bucks  
Director

# Montana Department of Revenue



Brian Schweitzer  
Governor

## MEMORANDUM

To: Dan Bucks, Director *DL*  
From: Ed Caplis, Tax Policy and Research  
Date: April 23, 2007  
Subject: Representative Stahl's Amendment to HB678

I have provided a brief analysis of the two amendments to HB678 offered by Representative Stahl. The first amendment amends the Governor's \$400 property tax rebate into HB678 for FY2008. The second amendment adds the original language of HB833 into the bill for FY2009, FY2010 and FY2011.

### Governor's \$400 Property Tax Rebate

Section 2 of this amendment would provide owners of a primary residence in Montana a rebate on TY2004, TY2005, and TY2006 property taxes assessed and paid up to a maximum rebate amount of \$400.

Based on figures from the 2005 American Community Survey, there are 254,458 owner-occupied houses in Montana.

Since Section 2 of this bill allows any residential owner to qualify if they paid \$400 in total taxes on their residence over a three-year period, it is assumed the estimated 254,458 owner-occupied homeowners will qualify for the rebate. The estimate rebate for these taxpayers would be \$101,783,200 (\$400 X 254,458).

The fiscal note assumes the full rebate amount would be paid in FY2008 and 97% of the rebate will be claimed. Based on these assumptions, the impact of the rebate on the general fund in FY2008 is \$98,729,704 (\$101,783,200 X 97%).

If the rebate is increased to \$480, the total cost of the rebate would grow to \$113,649,623.

### **HB833 Income Tax Credit**

New section 1 provides for an income tax credit to Montana homeowners who pay property taxes on a primary residence. The credit is equal to five times the amount of the taxes determined from the state equalization mills (95 mills) applied to \$20,000 in value, beginning in tax year 2008.

There are 254,458 owner-occupied houses in Montana (2005 American Community Survey). Based on workload estimates for the next four years, the Department of Revenue estimates that the number of primary residences will increase by 1% per year. Multiplying the credit by the projected number of residences, using a 34% homestead and 3.01% tax rate for FY 2009, the total credit amount is estimated as \$48,503,326 in FY 2009. Assuming the homestead exemption and tax rate continued at tax year 2009 levels and the multiplier remains constant at five, the total credit amount is estimated as \$48,988,359 in FY 2010 and \$49,478,243 in FY 2011.

Taxpayers who receive the credit and itemize deductions on their federal income tax returns will have smaller deductions for state income taxes. In addition, refunds that taxpayers receive because of this credit must be included in federal gross income for federal income tax. Both of these will increase federal income taxes. Taxpayers who pay more in federal income taxes because of the credit and claim an itemized deduction for federal taxes on their state income tax returns will pay less in state income tax. This fiscal note assumes this interaction has no significant effect on fiscal revenues.

If the credit is equal to three times the amount of the taxes determined from the state equalization mills (95 mills) applied to \$20,000 in value, beginning in tax year 2008 the cost of the credit would be reduced. Assuming the homestead exemption and tax rate continued at tax year 2009 levels, but the multiplier changes to three, the total credit amount is estimated as \$29,101,995 in FY 2009, \$29,393,015 in FY 2010 and \$29,686,945 in FY 2011.